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STATE BOARD OF ACCOUNTS
302 West Washington Street
4th Floor, Room E418
INDIANAPOLIS, INDIANA 46204-2738

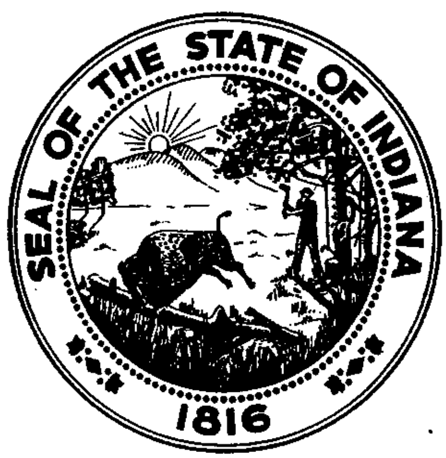
AUDIT REPORT

OF

INDIANA STATE TEACHERS' RETIREMENT FUND

STATE OF INDIANA

July 1, 2000 to June 30, 2001



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Charlie Johnson III
STATE EXAMINER

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INDIANA STATE TEACHERS' RETIREMENT FUND

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AGENCY OFFICIALS

Office	Official	Term
Director	Dr. William E. Christopher	04-15-99 to 01-10-05
President of the Board	Mr. Matthew B. Murphy, III	01-07-00 to 09-30-02

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INDEPENDENT AUDITORS' REPORT

TO: THE OFFICIALS OF THE INDIANA STATE TEACHERS' RETIREMENT FUND

We have audited the accompanying statement of plan net assets of the Indiana State Teachers' Retirement Fund as of June 30, 2001, and the related statement of changes in plan net assets for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and Government Auditing Standards. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the Indiana State Teachers' Retirement Fund are intended to present the financial position and results of operations of only the portion of the funds of the State that are attributable to the transactions of the fund.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Indiana State Teachers' Retirement Fund as of June 30, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The required supplemental schedules as listed in the table of contents are presented for purposes of additional analysis and are required disclosure for the Teachers' Retirement Fund. This information has been subjected to auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

STATE BOARD OF ACCOUNTS

October 31, 2001

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF PLAN NET ASSETS
June 30, 2001

Assets	
Cash and Cash Equivalents	$ 331,333,426
Securities Lending Collateral	586,198,579
Receivables	
Employer Contributions Receivable	22,687,377
Due From PERF	5,557,512
Member Contributions Receivable	29,243,020
Receivable From State Lottery	7,500,000
Receivables for Securities Sold	90,162,532
Investments Interest Receivable	46,266,482
Total Receivables	201,416,923
Investments	
Bonds	3,204,879,990
Equity Investments	2,297,345,618
Real Estate	260,000
Total Investments	5,502,485,608
Furniture and Equipment (Original Cost of $377,276 Net of $354,556 Accumulated Depreciation)	13,159
Insurance Premium Paid in Advance	36
Total Assets	6,621,447,731
Liabilities	
Accrued Benefits Payable	7,917,732
Accrued Salaries Payable (See Note 1)	104,484
Accrued Liability for Compensated Absences - Current	4,645
Accrued Liability for Compensated Absences - Long-Term	179,865
Accounts Payable	3,009,843
Due To PERF	5,404,625
Securities Lending Collateral	586,198,579
Payables for Securities Purchased	207,868,394
Total Current Liabilities	810,688,167
Net Assets Held in Trust for Pension Benefits	$ 5,810,759,564

(A schedule of funding progress is presented on Page 15)

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
STATEMENT OF CHANGES IN PLAN NET ASSETS
Year Ended June 30, 2001

Additions	
Contributions	
Member Contributions	$ 104,522,696
Employer Contributions	537,892,050
Employer Contributions - Pension Stabilization	155,000,000
Total Contributions	797,414,746
Investments	
Net Appreciation (Depreciation) in Fair Value	(219,426,522)
Interest Income	215,475,723
Dividend Income	38,876,964
Securities Lending Income	24,936,558
Less Investment Expense	
Investment Fees	(10,123,214)
Securities Lending Fees	(24,006,716)
Net Investment Income	25,732,793
Other Additions	
Transfers From Other Retirement Funds	2,378,801
Annuity and Disability Refunds	5,286,742
Outdated Benefit Checks	121,557
Reimbursement of Administrative Expense	25,171
Total Other Additions	7,812,271
Total Additions	830,959,810
Deductions	
Annuity and Disability Benefits	580,170,330
Voluntary and Death Withdrawals	8,753,977
Refunds - Members/School Units	--
Claims on Outdated Benefit Checks	--
Administrative Expenses	4,766,215
Capital Projects	2,028,556
Depreciation Expenses	9,561
Transfers to Other Retirement Funds	2,056,739
Total Deductions	597,785,378
Net Increase (Decrease)	233,174,432
Net Assets Held in Trust for Pension Benefits	
Beginning of Year	5,577,585,132
End of Year	$ 5,810,759,564

The accompanying notes are an integral part of the financial statements.

INDIANA STATE TEACHERS' RETIREMENT FUND
NOTES TO FINANCIAL STATEMENTS
June 30, 2001

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity - The financial statements presented in this report represent only those funds that the Indiana State Teachers' Retirement Fund (TRF) has responsibility for and are not intended to present the financial position or results of operations of the State of Indiana or all of the retirement and benefit plans administered by the State. Effective July 1, 2000, TRF became an independent corporate and politic (Public Law 119-2000). TRF is not a department or agency of the State but is an independent body corporate and politic exercising essential government functions. Although TRF is not a state agency, it is a component unit of the State of Indiana for financial statement reporting purposes.

B. Basis of Presentation - The financial statements of the Indiana State Teachers' Retirement Fund have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standards setting body for established governmental accounting and financial reporting principles.

C. Fund Accounting - Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. The Indiana State Teachers' Retirement Fund is a pension trust fund. For a description of this fund, see Note 2.

D. Basis of Accounting - The records of this Fund are maintained on a cash basis. The accrual basis is used for reporting purposes.

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. Pension trust funds are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included in the balance sheet.

E. Budgets - A budget for the administrative expenses is prepared and approved by the Board of Trustees.

F. Deposits and Investments - The Treasurer of State acts as the official custodian of the cash and securities, except for securities held by banks or trust companies under custodial agreements with the Board of Trustees. The Board of Trustees may contract with investment counsel, trust companies, or banks to assist the Board in its investment program. The Board is required to diversify investments in accordance with prudent investment standards. The Board has issued investment guidelines for its investment program which authorized investments of: U.S. Treasury and Agency obligations, U.S. Government securities, common stock, international equity, corporate bonds, notes and debentures, repurchase agreements secured by U.S. Treasury obligations, mortgage securities, commercial paper, and banker's acceptances. See Note 4 for more details.

G. Method Used to Value Investments - GASB 25 requires that investments of defined benefit plans be reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national or international exchange are valued at the last reported sales price at current exchange rates. Mortgages are valued on the basis of future principal and interest payments, and are discounted at prevailing interest rates for similar instruments. Investments that do not have an established market are reported at estimated fair value.

H. Equipment - Equipment with a cost of $5,000 or more is capitalized at the original cost. Depreciation is computed on the straight-line method over the estimated five year life of all assets.

I. Contributions Receivable - The contributions receivable was determined by using actual contributions received in July for days paid in the quarter ended June 30, 2001.

J. Inventories - Inventories of consumable supplies are not recognized on the balance sheet as they are considered immaterial. Purchases of consumable supplies are recognized as expenditures at the time of purchase.

K. Reserves and Designations

The following are the legally required reserves and other designations of fund equity:

1. Member Reserve: The member's reserve represents member contributions made by or on the behalf of the employees plus any interest distributions, less amounts refunded or transferred to the Benefits in Force reserve for retirement disability, or other benefit. For Indiana State Teachers' Retirement Fund this reserve is the employees' annuity savings account.

2. Benefits in Force: This reserve represents the actuarially present value of future benefits for all members who are presently retired or disabled. The accumulated contributions of the members are transferred to the reserve upon retirement or disability. The remainder of the actuarial pension cost is transferred from the employer reserve to fund the benefits. This reserve contains $1,833,040,979 for the Pension Stabilization Fund. The Pension Stabilization Fund was established by IC 21-6.1-2-8.

3. Employer Reserves: This reserve consists of the accumulated employer contributions plus earnings distributions less transfers made to the Benefits in Force reserve of the actuarial pension cost.

4. Undistributed Investment Income Reserve: This reserve was credited with all investment earnings. Interest transfers have been made annually to the other reserves as allowed or required by statutes. The transfers are at rates established by the Board of Trustees.

The following are the balances of the reserves and designations of fund equity:

Member Reserve	Employer Reserve	Benefits In Force	Undistributed Income
$ 2,654,185,073	$ 223,259,318	$ 2,707,640,003	$ 225,675,170

L. Payables and Liabilities - Payables and liabilities are not maintained throughout the year on the accounting records. They are calculated or estimated for financial statement reporting purposes and are posted to the general ledger at year end.

M. Compensated Absences - Full-time employees of the Indiana State Teachers' Retirement Fund are permitted to accumulate earned but unused vacation and sick pay benefits. Vacation leave accumulates at the rate of one day per month and sick leave at the rate of one day every two months plus an extra day every four months. Bonus vacation days are awarded upon completion of five, ten and twenty years of employment. Personal leave days are earned at the rate of one day every four months; any personal accumulated in excess of three days automatically becomes part of the sick leave balance. Upon separation of service, in good standing, employees will be paid for a maximum of thirty unused vacation leave days.

No liability is reported for unpaid accumulated sick leave. Vacation and personal leave and salary-related payments that are expected to be liquidated with expendable available financial resources are reported as an expenditure and as Accrued Compensated Absences Payable.

Note 2. Fund Description

The Indiana State Teachers' Retirement Fund is the administrator of a multiple-employer retirement fund established to provide pension benefits for persons who are engaged in teaching or in the supervision of teaching in the public schools of the state. At June 30, 2001, the number of participating school unit employers was:

Public School Units	317
Higher Education Units	4
State of Indiana Agencies	29
Associations	3
Total Employers	353

Membership in the Fund is required for all legally qualified and regularly employed teachers who serve in the public schools of Indiana, including the faculty at Vincennes University. Additionally, faculty members at Ball State University, Indiana State University, and University of Southern Indiana have the option of selecting membership in the Fund or the alternate University Plan. As of July 1, 2000, Indiana State Teachers' Retirement Fund membership consisted of:

Retirees and Beneficiaries Currently Receiving Benefits	32,878
Active Plan Members	77,870
Terminated Plan Members Entitled to But Not Yet Receiving Benefits	4,331
Total	115,079

The Indiana State Teachers' Retirement Fund provides retirement benefits, as well as death and disability benefits. Eligibility to retire occurs at age fifty with fifteen or more years of service or at age sixty-five with ten years of service. Annual retirement benefits, disability benefits, and death benefits are computed as follows:

Regular Retirement (No Reduction Factor For Age)

Eligibility - Age sixty-five with ten years service or age fifty-five with age plus years of service equaling at least eighty-five or age sixty with at least fifteen years of service.

Mandatory Retirement Age - none.

Annual Amount - State pension equal to total years of service times 1.1% of final average salary; plus an annuity purchased by the member's accumulated contributions unless the member elects to withdraw the accumulated contributions in a lump sum.

Type of Final Average Salary - Average of highest five years.

Early Retirement (Age Reduction Factor Used)

Eligibility - Age fifty with fifteen or more years service.

Annual Amount - State pension is computed as regular retirement benefit but reduced one-tenth of 1% for each month age at retirement is between sixty and sixty-five and five-twelfths of 1% for each month under age sixty.

Deferred Retirement (Vested Benefit)

Eligibility - Ten years of service. Benefit commences at age sixty-five, or at age fifty if member has fifteen or more years of service.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Regular Disability

Eligibility - Five years of service.

Annual Amount - $125 per month plus $5 for each year of service credit over five years.

Disability Retirement (No Reduction Factor For Age)

Eligibility - Five years of service and also qualify for Social Security Disability at time of termination.

Annual Amount - Computed as a regular retirement benefit with state pension based on service and final average salary at termination.

Duty Death Before Retirement

Eligibility - Fifteen years of service. Spouse to whom member had been married for two or more years is automatically eligible, or a dependent may be designated as beneficiary.

Annual Amount - Computed as regular retirement benefit but reduced in accordance with a 100% joint and survivor election.

Benefit Increases After Retirement: No automatic increases after retirement are provided. Unscheduled increases have been made from time to time.

Each member shall, as a condition of employment, contribute to the Fund 3% of his/her compensation. Effective July 1, 1986, each employing unit may elect to "pick up" the employee contribution. No part of the member contributions to the Fund picked up by the employer is includable in the gross income of the member. The "pick up" amount does count in the salaries used to determine the final average at retirement. Any member who leaves covered employment has the option to withdraw accumulated contributions and interest. In the event of a death of a member who has served less than fifteen years or does not meet the surviving spouse requirements, their designated beneficiary or estate is entitled to a lump sum settlement of their contributions plus interest.

Indiana pension statutes stipulates that each member of the Fund shall have the opportunity to direct their annuity savings account into one of five current investment programs:

1. The Guaranteed Fund - Interest is credited at a rate annually determined by the Board of Trustees. Principal and interest are "guaranteed." Market risk is assumed by the Fund.

2. The Bond Fund - Contains high quality fixed-income instruments which provide interest/capital gain income. Market risk is assumed by the member.

3. S & P 500 Index Fund - Closely tracts the return on the S & P 500 Index by employing an indexing strategy that invest in the stocks of the S & P 500 Index companies. Market risk is assumed by the member.

4. Small Cap Equity Fund - Consist of stocks with a market capitalization of less than $1.5 billion. Market risk is assumed by the member.

5. International Equity Fund - Consists of securities of developed non-U.S. countries. Market risk is assumed by the member.

The Guaranteed Fund, Bond Fund, S & P 500 Index Fund, Small Cap Fund and International Fund are valued at market value. When a member retires, dies or suspends membership and withdraws from the fund, the amount credited to the member shall be valued at the market value of the member's investment plus accrued interest on investment less accrued investment expenses.

Members may only make a selection or re-allocation once during any twelve month period. The changes will be in effect the first month of the quarter following the request for change. Members may request allocations to one or all of the approved funds, as long as those allocations are made in 10% increments of the total balance in the member's account at the time of allocation. The total must equal 100%.

Note 3. Employer Contributions Required and Employer Contributions Made

The Indiana State Teachers' Retirement Fund is funded on a "pay as you go" basis for employees hired prior to July 1, 1995. State appropriations are made for the amount of estimated pension benefit payout for each fiscal year. For employees hired on or after July 1, 1995, the individual employer will make annual contributions. These contributions are actuarially determined.

Based on the actuarial valuation at June 30, 2000, employer actuarially required contributions were $537,789,669 normal cost, with no amortization of the unfunded actuarial accrued liability and zero provision for expenses. Contributions made by employers for the year ended June 30, 2001, totaled $692,892,050 which was 25.2% of covered payroll.

Note 4. Cash, Investments and Securities Lending

Investments made by the Indiana State Teachers' Fund, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 includes investments that are insured or registered or for which securities are held by the State or its agent in the State's name. Category 2 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or its agency in the State's name. Category 3 includes uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent but not in the State's name.

State statutes and Board of Trustees permit the Fund to lend securities to broker-dealers and other entities (borrowers) for collateral that will be returned for the same securities in the future. The Fund's custodial bank manages the securities lending program and receives securities or cash as collateral. The collateral securities cannot be pledged or sold by the Fund unless the borrower defaults, but cash collateral may be invested by the Fund. Collateral securities and cash are initially pledged at 102% of the market value of the securities lent. No more than 40% of Teachers' Retirement Fund's total assets may be lent at any one time. At year-end, Teachers' Retirement Fund has no credit risk exposure to borrowers because the amount Teachers' Retirement Fund owes the borrowers exceed the amounts the borrowers owe Teachers' Retirement Fund.

Approximately 25% of the securities loans can be terminated on demand either by the Fund or by the borrower, although generally the average term of these loans is one day. Cash collateral is generally invested in securities of a longer term, generally with maturities up to one year, and the weighted-average term to maturity of all collateral investments was thirty days.

	Category 1	Category 2	Category 3	Market Value
Equity Securities				
Not on Securities Loan	$ 1,896,359,100	$ --	$ --	$ 1,896,359,100
On Securities Loan	--	2,929,960	--	2,929,960
Corporate Bonds				
Not on Securities Loan	1,657,168,395	--	--	1,657,168,395
On Securities Loan	--	109,058,081	--	109,058,081
Foreign Bonds	5,283,800	--	--	5,283,800
Mortgage Securities	48,121,852	--	--	48,121,852
U.S. Treasury and Agency Obligations				
Not on Securities Loan	1,192,909,099	--	--	1,192,909,099
On Securities Loan	--	128,401,582	--	128,401,582
Investments on Securities Loan				
Repurchase Agreements	--	477,140,498	--	477,140,498
Total Investments Categorized	$ 4,799,842,246	$ 717,530,121	$ --	$5,517,372,367

Investments Not Categorized	Market Value
Investments Held by Broker-Dealers Under Securities Loans With Cash Collateral	
Equity Securities	$ 333,451,183
United States Government Securities	237,600,637
Total Investment Not Categorized	$ 571,051,820

Note 5. Employee Retirement System

The State of Indiana contributes to the Indiana Public Employees' Retirement Fund (PERF), an agent multiple-employer retirement system which acts as a common investment and administrative agent for state employees and employees of the various subdivisions of the State of Indiana. In addition, the State of Indiana contributes to the Indiana State Teachers' Retirement Fund (TRF) for state employees who are eligible to be members of that plan. The payroll for the employees covered by Indiana State Teachers' Retirement Fund for the year ended June 30, 2001, was $193,480 and the payroll for the employees covered by Indiana Public Employees' Retirement Fund was $907,268.85.

All full-time employees covered by PERF are required to participate in the plan. State statutes govern most requirements of the system, including the benefits which vest after ten years of service. Employees who retire may receive benefits with fifteen years of service if they have reached fifty years of age. An employee may receive benefits at age sixty-five with ten years of service. All full-time employees covered by TRF and retiring after May 1, 1989, may receive normal benefits at age sixty with at least fifteen years of service; or the member is at least fifty-five years of age and the years of age and years of creditable service add up to at least eighty-five.

The plan is a defined benefit plan. Contributions equal to three percent of each employee's compensation is required which may be paid by the employer or withheld from employees. TRF pays the three percent contribution for its employees. Benefits from this three percent depends on the amount contributed, plus investment earnings. Employees who leave employment before qualifying for benefits receive this accumulated contribution, plus the investment earnings credited.

PERF's funding policy provides for actuarially determined periodic contributions at rates that, for individual employees, increase gradually over time so that sufficient assets will be available to pay benefits when due. The rate for the State's employee group as a whole has tended to remain level as a percentage of annual covered payroll. PERF uses the entry age normal cost method to determine the contribution requirements and the actuarial accrued liability. The State's annual contribution to PERF consists of the amortization of the unfunded actuarial accrued liability (expressed as a level dollar amount), plus the entry age normal cost (expressed as a percentage of total payroll).

The amortization of the unfunded actuarial accrued liability is the level dollar payment necessary to amortize the unfunded actuarial accrued liability. The initial 1975 liability is being amortized over forty years from the date of change, with the exception that changes in liabilities due to cost of living adjustments are being amortized over fifteen years. The entry age normal cost is determined on an individual basis and then increased proportionally to account for PERF operational expenses. TRF, on the other hand, is funded on a pay-as-you-go basis for employees hired prior to July 1, 1995, with the state appropriating only the amount necessary to fund the benefits due in a particular year. For employees hired on or after July 1, 1995, the employer makes annual contributions. The General Assembly is required to appropriate an amount sufficient to cover the state's actuarial liability for each member covered by the pre-1996 account and for each state employee covered by the 1996 account.

Note 6. Deferred Compensation Plan

The State offers its employees a deferred compensation plan (the plan) created in accordance with Internal Revenue Code Section 457. The plan, available to all State employees and employees of certain quasi-agencies and political subdivisions within the State, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) held for the exclusive benefit of participants of the plan and their beneficiaries as required by section 457(g) of the Internal Revenue Code. In addition, the State has an Indiana Incentive Match Plan which provides $15 per pay period for each employee who contributes to the 457 Plan.

The state has established a deferred compensation committee that holds the fiduciary responsibility for the plan. The committee holds the deferred amounts in an expendable trust.

Note 7. Contingent Liabilities

The Indiana State Teachers' Retirement Fund is defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, the resolution of these matters will not have a material or adverse effect on the financial condition of the Fund. Tort claims are paid from the General Fund of the State of Indiana through the Attorney General's Office and are not paid by the Fund.

Note 8. Risk Management

The Fund is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

The policy of the Fund is not to purchase commercial insurance for the risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; job related illnesses or injuries to employees; and natural disasters.

INDIANA STATE TEACHERS' RETIREMENT FUND
REQUIRED SUPPLEMENTAL SCHEDULES
June 30, 2001

SCHEDULE OF FUNDING PROGRESS

(Dollar Amounts in Millions)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (ALL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6-30-94	$ 2,809	$ 9,088	$ 6,279	30.91%	$ 2,615	240.11%
6-30-95	2,984	9,675	6,691	30.84%	2,729	245.18%
6-30-96	3,263	10,331	7,068	31.58%	2,879	245.50%
6-30-97	3,750	11,044	7,294	33.96%	2,985	244.36%
6-30-98	4,266	11,779	7,513	36.22%	3,095	242.75%
6-30-99	4,971	12,671	7,700	39.23%	3,294	233.76%
6-30-00	5,578	13,115	7,537	42.53%	3,193	236.05%

SCHEDULE OF CONTRIBUTIONS FROM THE EMPLOYERS AND OTHER CONTRIBUTING ENTITIES

Year Ended June 30	Annual Required Contribution	Percentage Contributed
1994	$ 456,846,570	63%
1995	481,927,124	65%
1996	508,940,065	106%
1997	508,259,679	92%
1998	524,815,537	117%
1999	547,532,673	118%
2000	537,789,669	128%

NOTES TO REQUIRED SUPPLEMENTAL SCHEDULES

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated. Additional information as of the latest actuarial valuation follows.

Valuation Date	June 30, 2000
Actuarial Cost Method	Entry Age
Amortization Method	Level Percent Closed
Remaining Amortization Period	39 Years
Asset Valuation Method	Market Value
Actuarial Assumptions:	
Investment Rate of Return	7.50%
Projected Salary Increases	5.50% to 10.60%
Post Retirement Benefit Increases	5.50%
Cost of Living Increases	Unscheduled Increases Periodically

INDIANA STATE TEACHERS' RETIREMENT FUND
AUDIT RESULTS AND COMMENTS
June 30, 2001

PROCUREMENT INTERNAL CONTROLS

During our audit of the Indiana State Teachers' Retirement Fund, we found that the controls over procurement were not being properly followed. Many of the invoices and receipts were paid prior to any approval. Also, there were disbursements made for office furniture to one vendor that totaled over $147,000 without any bids or contract for these purchases. There were also payments made to a physician without any contract or any invoices from the physician's office.

According to General Procurement (Operations) and Real Estate Policy developed by the Indiana State Teachers' Retirement Fund states that "the Board of Trustees intends to operate with written contracts whenever feasible." Also, the Indiana State Teachers' Retirement Fund Purchasing Procedures state that prior to contacting the supplier, the purchase order will be submitted to one of the two persons with the authority to approve a purchase. After the order has been received it will again be submitted to one of the two persons who is authorized to approve payment. These rules are to be applied to all non-contract purchases.

SEGREGATION OF DUTIES

We found that the duties for the Operating Checking Account were not properly segregated. The same individual writes the checks, is one of the two signatories for the account, maintains the ledger and also reconciles the checking account monthly.

For good internal controls the duties of maintaining the records, signing the checks, and reconciling the account should be segregated.

INTERNAL CONTROL - REPLACEMENT CHECK DOCUMENTATION

Several replacement check disbursements lacked adequate supporting documentation to ensure that duplicate payments were not made to members. Due to the lack of supporting information, the validity and accountability for some replacement checks disbursed could not be established. Supporting documentation such as an affidavit signed by the retiree, stop payment form sent to the bank or any other information necessary to support the issuance of a replacement check should be maintained.

The Teachers' Retirement Fund should have internal controls in effect which provide reasonable assurance that duplicate payments to members are not being made when a replacement check is issued.

INDIANA STATE TEACHERS' RETIREMENT FUND
EXIT CONFERENCE

The contents of this report were discussed on November 28, 2001, with Dr. William Christopher, Director. The official response to the audit findings has been made a part of this report and may be found on Page 18.

Indiana State Teachers' Retirement Fund

FRANK O'BANNON, Governor
WILLIAM E. CHRISTOPHER, Ph.D., Director

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OFFICIAL RESPONSE

December 10, 2001

Charles Johnson, III
State Examiner
State Board of Accounts
302 W Washington St, Room E418
Indianapolis, IN 46204-2738

Dear Mr. Johnson:

In response to the "Audit Results and Comments" that pertain to the audit of the Indiana State Teachers' Retirement Fund for the fiscal year ending June 30, 2001, I would like to state our agency's position.

In the acquisition of the office furniture listed, on November 17, 2000 we made site visits to two furniture manufactures to view their products and obtain quotations. Three staff members of the Fund and myself made these visits. The manufacturers visited were Kimball and Carrico Office Furniture. We also priced steel furniture. A decision was made by the furniture committee, which consisted of members of the staff from the Fund and myself, to purchase the furniture from Carrico Office Furniture. Detailed drawings and pricing for each phase of the renovation of the office are on file. The Teachers' Retirement Fund Board of Trustees reviews and approves all payments made by the Fund.

We have revised our bank reconcilement procedures so that the same person who writes the checks no longer completes it. The bank reconcilement will be done by a member of the accounting staff and reviewed by the Fund's Internal Auditor. The Controller will not longer be involved in the bank reconcilement.

We have updated our documentation procedures to attach a copy of all documentation to the check stubs of all replacement checks written by the Fund. This will include any applicable stop payment confirmation, original checks that are voided and approval for changes from the original amount of the check. At the time of the audit, documentation was being filed with the individual member's file.

Thank you for continuing to provide important guidance to the Indiana Teachers' Retirement Fund through the annual audit process. It is through this guidance we can continue to improve our service to our members and provide the kind of administration that the people of Indiana should expect.

Sincerely,

William E. Christopher, Ph.D.
Executive Director